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Canadian Obas Oil limited

Annual Report 1976

Bob Wood



# Canadian Obas Oil Limited

## EXECUTIVE OFFICES

940 Aquitaine Tower  
540 - 5th Avenue S.W.  
Calgary, Alberta  
T2P 0M2

## OFFICERS

Joseph Sabo, President  
Robert G. Smith, Secretary-Treasurer

## DIRECTORS

Joseph Sabo  
President, Canadian Obas Oil Limited, Calgary  
Robert G. Smith  
President, Vanir Construction Services Ltd., Calgary  
Frederick T. Cousins  
President, Canadian Kelvin Resources Ltd., Calgary  
Donald J. Quinn  
President, Calgary Crude Oil Limited, Calgary  
Robert B. Nimmon  
Vice President, Cavendish Investing Ltd., Calgary

## TRANSFER AGENT & REGISTRAR

Montreal Trust Co.  
411 - 8th Avenue S.W.  
Calgary, Alberta  
T2P 1E7

## BANKERS

Bank of Montreal  
Main Branch  
140 - 8th Avenue S.W.  
Calgary, Alberta  
T2P 1B3

## SOLICITORS

Victor M. Naimish, LL.B., C.D.  
1850 Elveden House  
717 - 7th Avenue S.W.  
Calgary, Alberta  
T2P 0Z3

## AUDITORS

Arthur Andersen & Co.  
7th Floor, 335 - 8th Avenue S.W.  
Calgary, Alberta  
T2P 1C9

## CAPITALIZATION

Authorized 5,000,000 No par value  
Issued 2,111,610

## STOCK EXCHANGE LISTING

Alberta Stock Exchange  
Symbol "CIB"

## "THE MOUNTAIN MAN"

Lithographed from a transparent watercolor by Bob Wood, Kalispell, Montana.

A limited edition of 11" x 14" framing prints has been run without the cover wording, and all have been signed and numbered by the artist. Copies are available by writing to the head office of Canadian Obas Oil Ltd.

## Annual Meeting

The Annual Meeting of Shareholders of Canadian Obas Oil Limited will be held in the Board Room of Montreal Trust Co., 411 - 8th Avenue S.W., Calgary, Alberta, at 10:00 A.M. on Friday, October 29, 1976.

Formal notice of this meeting and Proxy material are enclosed.



# President's Report

## TO THE SHAREHOLDERS

On behalf of the Board of Directors of Canadian Obas Oil Limited, I am pleased to present the Company's Fourth Annual Report and the Audited Financial Statements for the year ended May 31, 1976.

The past year has been one of consolidation and development, resulting in the beginning of a significant cash flow for the Company. The Verger wells went on production at the end of February 1976, grossing \$125,944 prior to our May 31 year end.

The Verger field has now been fully developed with a total of 44 natural gas wells completed for production from Medicine Hat, Ellerslie and Basal Colorado zones. Gas is present in the Milk River zone in all of the wells and our recent development penetrated additional gas from the Viking and Belly River zones. Engineering and economic evaluations prepared by independent petroleum consultants indicate a net cash flow of approximately \$620,000 for the first full year and \$780,000 for the second year.

The Company has completed 19 additional Milk River-Medicine Hat gas wells in the Wintering Hills area subsequent to the year end. This development program also encountered commercial natural gas in the Belly River and Viking formations, which will warrant further development. Plans are under way for the required gathering system and connection to the Verger battery and compressor station, with a target of November 1976 for initial production. Evaluations by our consultants show net cash of \$340,000 for a first year pilot program and \$715,000 for a second year at full development.

Our additional properties at Connorsville, Misty Lake and Forty Mile Coulee have good potential and we expect to undertake and complete development programs in these areas during 1977.

The Audited Financial Statements reflect the capital and operating costs of an active development program for a full year in order to have achieved the initial revenue. Our next Annual Report will also reveal a continuing aggressive development program, however there will be revenue from the existing properties for the full financial period.

During the year ended May 31, 1976 the financial structure for the Company was further strengthened by the conversion of the \$300,000 of Debentures into shares of the Company, eliminating an interest commitment.

With an excellent line of credit with our bank and the availability of the revenue from Verger and Wintering Hills gas sales, Canadian Obas Oil Limited is in a position to pursue a program of selective development of its properties and to generate and review new oil and gas prospects.

In submitting this report, we take considerable pride in stating that the Company has participated in 63 wells over the past three years without a dry hole.

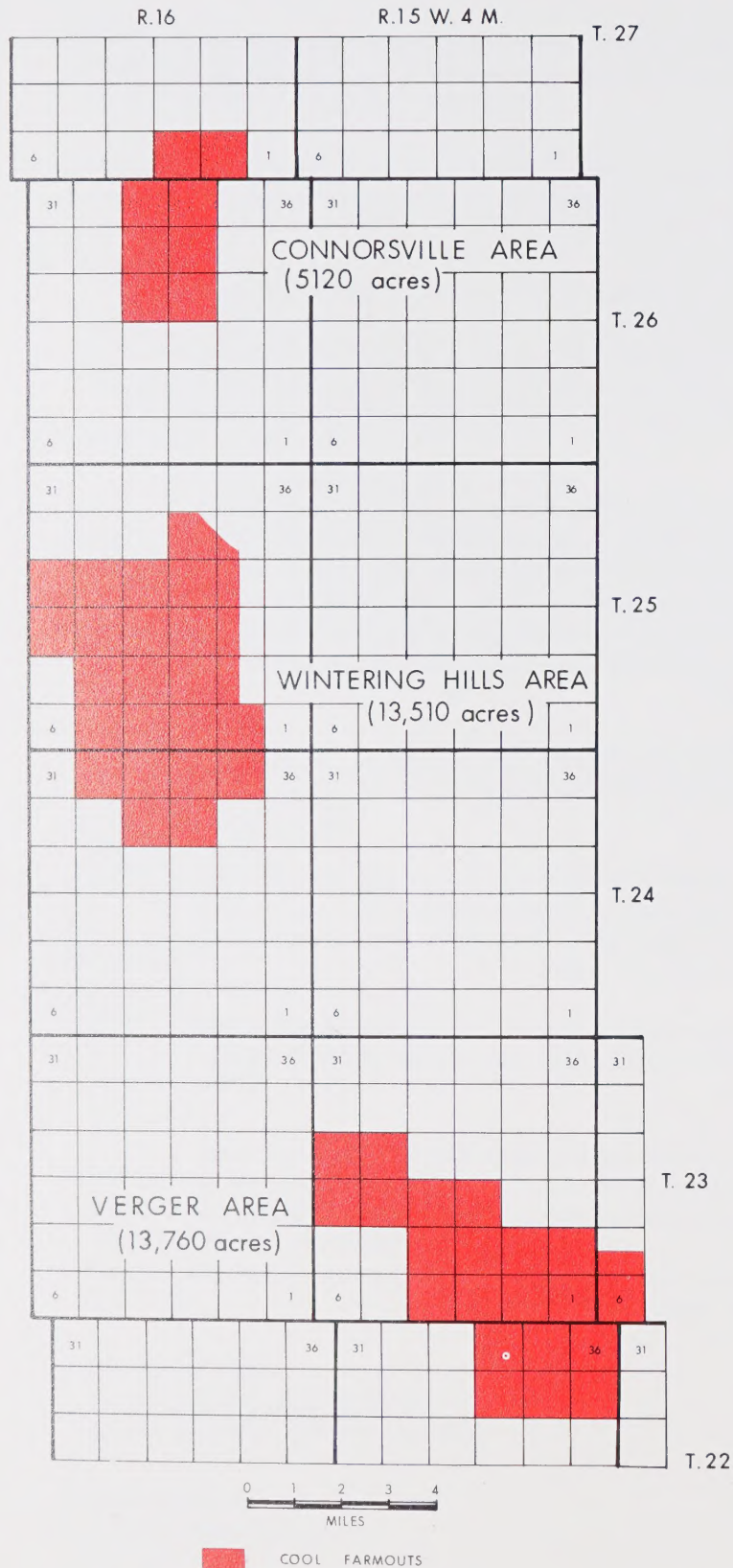
Joseph Sabo  
President

September 13, 1975  
Calgary, Alberta, Canada





# Exploration and Development



## CONNORSVILLE

There were no additional development wells drilled in this area during the past year. We are planning complete development of the Connorsville field in the coming year. Canadian Obas Oil Ltd. holds a 25 percent working interest in the 5,120 acres and the two commercial Milk River-Medicine Hat gas wells.

## WINTERING HILLS

Canadian Obas Oil Limited has completed drilling an additional 14 Milk River-Medicine Hat gas wells in this area subsequent to the year end. Gas was also discovered in the Belly River and Viking sand formations. There are now 19 wells capable of production from the Milk River, Medicine Hat, Belly River and Viking zones. Negotiations with Consolidated PipeLines to install a gathering system and pipeline into the Verger battery have been completed, and we anticipate initial production by November 1976. Canadian Obas Oil Limited has a 50 percent working interest in 13,510 acres.

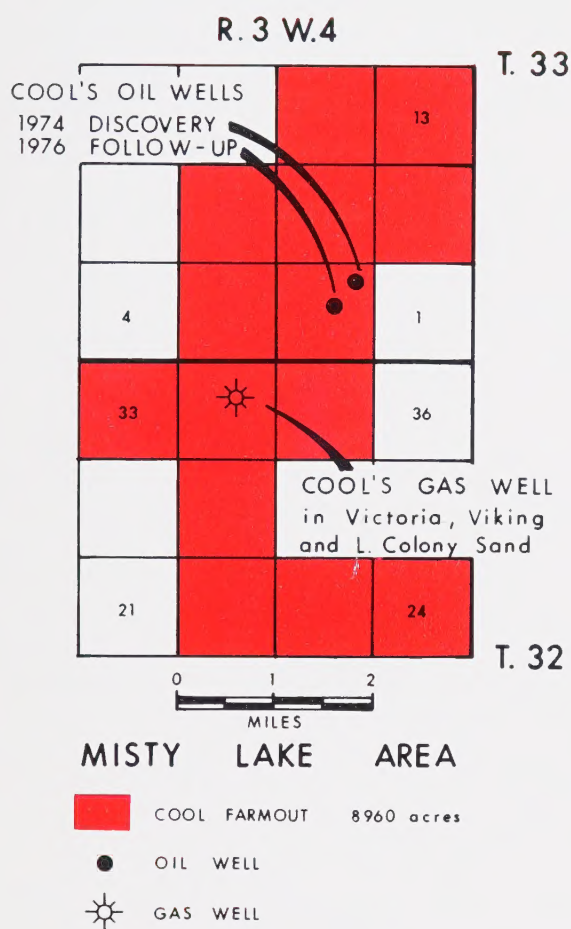
## VERGER

Commercial production of natural gas from this area commenced at the end of February 1976. During the financial year, nineteen wells were completed for gas production from the Medicine Hat, Ellerslie and Basal Colorado zones: gas is present in the Milk River zone in all of the wells and they will be perforated and completed for production as depletion takes place in other zones. Subsequent to the year end, a further 19 wells have been drilled to complete the shallow gas development on the 13,760 gross acres in which Canadian Obas Oil Limited has a 23.75 percent working interest. During the final development of the Verger properties, additional gas was discovered in the Viking and Belly River sand formations.



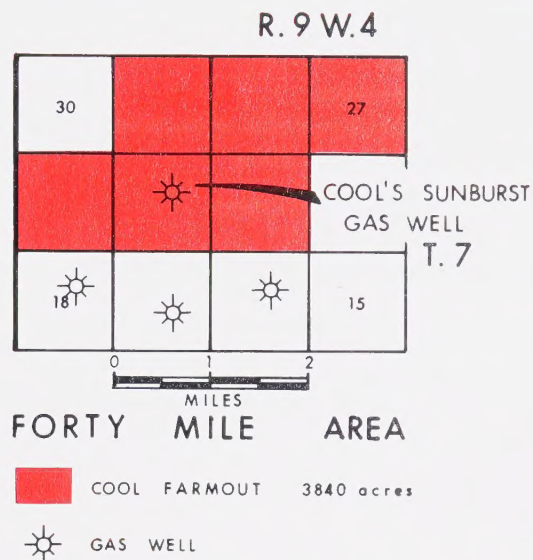
## SUMMARY OF ALBERTA OIL AND GAS PROPERTIES at August 31, 1976

Area	Gross Acres	Net Acres	Gas Wells	Oil Wells	Proposed Locations
Verger	13,760	3,268	44	2	—
Wintering Hills	13,510	6,755	19	—	18
Connorsville	5,120	1,280	2	—	14
Misty Lake	8,960	2,240	2	2	5
Forty Mile	3,840	960	1	—	6
Totals	45,190	14,503	68	4	43



### MISTY LAKE

Canadian Obas Oil Limited participated in the completion of two oil wells during the year, including the 10-2-33-3 W 4M follow up to the discovery well. The wells are now on production tests with an indicated rate of 45 barrels per day per well. These initial rates are favorable and, with a wellhead price of nearly \$7 per barrel, a continuation of these production rates would justify development of the oil field. We are investigating the feasibility of a natural gas line in the area which would enable production from the natural gas wells already completed and encourage further development. Canadian Obas Oil Limited has a 25 percent working interest in 8,960 acres.



### FORTY MILE COULEE

There was no further drilling in this area during the past year however, we anticipate full development in the coming year. We expect the gas prices to be approximately \$1.30 per Mcf. in 1977 and plan to finalize contracts for the market and a gas gathering system by the end of this year. Canadian Obas Oil Limited has a 25 percent working interest in 3,840 acres.

### MINING PROPERTIES

Canadian Obas Oil Limited has retained its eight percent interest in seven gold mining properties in British Columbia. In the past year, most of the work was concentrated on our Texada Island claims, particularly in the area where spectacular gold shows were found. Stripping of overburden was done along a 100' strike of the gold show and assays were done on 2,565 pounds of samples, indicating an average of 2.00 ounces of gold per short ton. We are presently doing further evaluations of the area. The six other properties listed below have been relatively inactive in the past year:

	Number of Claims
Pipe Group — near Hope	12
Spuz Group — near Yale	24
Maj Group — near Yale	12
Pow Group — near Powell River	7
Churn Group — near Williams Lake	6
Bar Group — near Clinton	4



## ***Balance Sheets***

May 31, 1976 and 1975

### **A S S E T S**

#### **CURRENT ASSETS:**

Term deposits  
Accounts receivable  
Receivable on convertible debentures (Note 4)  
Drilling deposits and other

Total current assets

MINERAL PROPERTIES, at cost (Note 1)

OIL AND GAS PROPERTIES, at cost, less  
accumulated depreciation and depletion of  
\$16,225 in 1976 and \$11,001 in 1975  
(Notes 1 and 3)

GOODWILL, at cost

<u>1976</u>	<u>1975</u>
\$ 200,000	\$ —
16,983	8,703
—	300,000
<u>9,007</u>	<u>7,187</u>
\$ 225,990	\$315,890
40,576	21,000
732,275	404,841
<u>10,000</u>	<u>10,000</u>
<u><u>\$1,008,841</u></u>	<u><u>\$751,731</u></u>

APPROVED BY THE BOARD:

J. Sabo, Director

R.G. Smith, Director

## LIABILITIES AND SHAREHOLDERS' EQUITY

	<u>1976</u>	<u>1975</u>
CURRENT LIABILITIES:		
Bank indebtedness	\$ 9,141	\$ 26,960
Accounts payable	27,511	37,650
Accrued liabilities	14,400	14,800
Current portion of long-term debt (Note 3)	<u>171,854</u>	<u>37,500</u>
Total current liabilities	<u>\$ 222,906</u>	<u>\$ 116,910</u>
LONG-TERM DEBT (Note 3)	<u>\$ 462,970</u>	<u>\$ 180,774</u>
CONVERTIBLE DEBENTURES (Note 4)	<u>\$ —</u>	<u>\$ 300,000</u>
COMMITMENT (Note 6)		
SHAREHOLDERS' EQUITY:		
Common shares, no par value; authorized 5,000,000 shares (Notes 4 and 5)	<u>\$ 607,104</u>	<u>\$ 309,404</u>
Deficit	<u>(284,139)</u>	<u>(155,357)</u>
	<u>\$ 322,965</u>	<u>\$ 154,047</u>
	<u><u>\$1,008,841</u></u>	<u><u>\$ 751,731</u></u>

*The accompanying notes are an integral part of these balance sheets.*



***Statements of Changes in Financial Position***

For The Years Ended May 31, 1976 and 1975

	<u>1976</u>	<u>1975</u>
WORKING CAPITAL PROVIDED BY:		
Issue of convertible debenture	\$ —	\$300,000
Long-term debt (Note 3)	282,196	89,911
Proceeds from disposal of equipment	13,263	—
Share subscriptions — stock options	15,050	—
— convertible debenture	300,000	—
	<u>\$ 610,509</u>	<u>\$389,911</u>
WORKING CAPITAL USED FOR:		
Operations —		
Loss	\$ 128,782	\$ 88,655
Deduct item not providing or using working capital during the period:		
Depletion and depreciation	<u>(10,839)</u>	<u>(6,224)</u>
	\$ 117,943	\$ 82,431
Oil and gas development	344,553	143,670
Mineral exploration	19,576	21,000
Additions to equipment	6,983	17,294
Share subscriptions receivable	15,050	—
Conversion of debenture	300,000	—
Professional fees relating to share issuance	2,300	—
	<u>\$ 806,405</u>	<u>\$264,395</u>
INCREASE (DECREASE) IN WORKING CAPITAL	<u>\$(195,896)</u>	<u>\$125,516</u>
WORKING CAPITAL, beginning of year	<u>198,980</u>	<u>73,464</u>
WORKING CAPITAL, end of year	<u>\$ 3,084</u>	<u>\$198,980</u>

*The accompanying notes are in integral part of these statements.*





## Statements of Shareholders' Equity

For The Years Ended May 31, 1976 and 1975

	Common Shares (Notes 4 and 5)		Retained Earnings (Deficit)
	Shares	Amount	
Balance, May 31, 1974	1,836,610	\$309,404	\$ (66,702)
Loss	—	—	(88,655)
Balance, May 31, 1975	1,836,610	\$309,404	<u>\$(155,357)</u>
Stock options exercised	35,000	15,050*	
Conversion of debenture	240,000	300,000	
Professional fees relating to conversion of debenture and stock options exercised	—	(2,300)	
Loss	—	—	(128,782)
	<u>2,111,610</u>	<u>\$622,154</u>	<u>\$(284,139)</u>
Less share subscriptions receivable	—	(15,050)*	—
Balance, May 31, 1976	<u>2,111,610</u>	<u>\$607,104</u>	<u>\$(284,139)</u>

The accompanying notes are an integral part of these statements.

## Statements of Loss

For The Years Ended May 31, 1976 and 1975

	1976	1975
REVENUES:		
Oil and gas sales (Note 2)	\$125,944	\$ 2,304
Less royalties	38,388	404
Net oil and gas sales	\$ 87,556	\$ 1,900
Interest on term deposits and other	17,980	7,561
	<u>\$105,536</u>	<u>\$ 9,461</u>
EXPENSES:		
Lease operating and maintenance	\$ 35,368	\$ 8,824
Management salary (Note 9)	35,000	20,000
Interest	73,012	16,137
Depletion and depreciation (Note 1)	10,839	6,224
General and administrative	80,099	46,931
	<u>\$234,318</u>	<u>\$ 98,116</u>
-Loss (Note 7)	<u>\$128,782</u>	<u>\$ 88,655</u>

The accompanying notes are an integral part of these statements.



## ***Notes to Financial Statements***

May 31, 1976 and 1975

### **1. SUMMARY OF ACCOUNTING POLICIES**

#### **Oil and Gas Properties**

The full cost method of accounting is used for oil and gas properties whereby all costs of acquiring, exploring for and developing oil and gas reserves, including pre-production expenses, production equipment and costs of non-producing properties are capitalized. Provision for depreciation and depletion is computed on the unit-of-production method based on the estimated proven oil and gas reserves.

#### **Mineral Properties**

Mineral properties represent the costs relating to an exploration program being undertaken on certain mineral claims in British Columbia. As of May 31, 1976, the exploration program is still in progress and the mineral reserves have not been fully evaluated. If the exploration proves successful, the costs will be depleted on the unit-of-production method based on estimated proven reserves; if unsuccessful, the costs will be written off.

### **2. SALE OF GAS**

Price negotiations have been completed and production has commenced from previously shut-in wells as well as the recently drilled wells in the Verger Area.

### **3. LONG-TERM DEBT**

	<u>1976</u>	<u>1975</u>
Bank production loan	\$621,649	\$175,318
Advance from Consolidated Natural Gas Limited	<u>13,175</u>	<u>42,956</u>
	\$634,824	\$218,274
Less current portion	<u>171,854</u>	<u>37,500</u>
	<u>\$462,970</u>	<u>\$180,774</u>

#### **Bank Production Loan**

The bank production loan is evidenced by a demand note. All oil and gas reserves have been assigned to the bank as collateral. The arranged line of credit is \$753,000. Interest is at 1¼% above prime, and a commitment fee of ¾ of 1% is charged on the unused portion of the line of credit.

Payments (\$13,223 per month) scheduled after May 31, 1977 were classified as long-term debt upon the advice of the bank that they will not demand repayment as long as the Company is not in default of its obligations.

#### **Advance From Consolidated Natural Gas Limited**

The advance is repayable out of 1/3 of the net proceeds from gas sales and has been included in the current portion of long-term debt since repayment is anticipated within one year.

### **4. CONVERTIBLE DEBENTURES**

The 10% convertible debentures, a portion of which were owned by shareholders, were converted as of May 31, 1976 at a price of \$1.25 per share (240,000 shares). The debentures were secured by a floating charge against the assets of the company. They were convertible by the holders until May 30, 1980, and redeemable by the company after December 31, 1976.

### **5. STOCK OPTIONS**

Stock options on 35,000 shares were granted to directors, exercisable at 1/3 per annum over a 3 year period ending October 31, 1976. The options prices were \$.33, \$.38 and \$.43 per share respectively in each of the 3 years. The options were cumulative at the price existing during the year of exercise. During 1976, options for 35,000 shares were exercised at a price of \$.43 per share.

### **6. COMMITMENT**

Consolidated Pipelines Company contracted with the producers in the Verger Area (Obas — 23.75%) to provide and operate a gas gathering, processing and delivery system. The producers (100%) are committed for 15 years to a minimum through-put of 4,000 MCF per day at 11¢ per MCF for the first five years, 9¢ per MCF





## Notes to Financial Statements (Continued)

for the second five years and 5¢ per MCF for the last five years of the commitment. Charges for through-put in excess of the minimum during the first five years are 4¢ for the next 1,250 MMCF's and 2¢ for each additional MCF. There is a similar sliding scale in the second five year period. Excess volumes in the third five year period are at 5¢ per MCF and all volumes after the 15th year will be at 2.5¢ per MCF. Consolidated has a lien on the producers sale of gas moved through the system. This lien is second to the bank assignment.

The producers are jointly and severally liable to Consolidated for all obligations under the contract.

A similar agreement exists for the Wintering Hills area however production has not commenced.

### 7. EARNINGS PER SHARE

Earnings per share are calculated using the weighted monthly average number of shares outstanding during the respective fiscal years. Loss per share is \$.064 in 1976 and \$.048 in 1975.

### 8. INCOME TAXES

Deductions for tax depreciation and exploration and development expenditures of approximately \$255,000 in excess of the net book value (\$773,000) are available to deduct against future taxable income.

The company also has tax loss carry-forwards of approximately \$44,000 to be applied against taxable income earned before 1980.

### 9. DIRECTORS' AND OFFICERS' REMUNERATION

	<u>1976</u>	<u>1975</u>
Directors —		
Number	5	4
Remuneration	\$ —	\$ —
Officers —		
Number	2	2
Remuneration	\$35,000	\$20,000

## Auditor's Report

To the Shareholders of  
Canadian Obas Oil Limited:

We have examined the balance sheets of Canadian Obas Oil Limited (an Alberta corporation) as of May 31, 1976 and 1975, and the related statements of shareholders' equity, loss and changes in financial position for the years then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion, the accompanying financial statements present fairly the financial position of Canadian Obas Oil Limited as of May 31, 1976 and 1975, and the results of its operations, and the changes in its financial position for the years then ended, in accordance with generally accepted accounting principles consistently applied during the periods.

Calgary, Alberta  
July 14, 1976.

ARTHUR ANDERSEN & CO.  
Chartered Accountants



**Canadian Obas Oil Limited**

**Annual Report 1976**